

**GENERAL
INSURANCE
INFORMATION**

SECTION

THE INDIANA DEPARTMENT OF INSURANCE

- **DOES NOT SELL INSURANCE.** Insurance agencies and agents sell policies that are developed by private insurance companies.
- **Provides consumer service** to help with complaints against and information about various insurance agencies and insurance agents.
- **Supervises** the organization, regulation, examination, rehabilitation, liquidation, and conservation of all insurance companies residing in (“domiciled”) or authorized to do business in Indiana. When a company is licensed to do business in Indiana, it is issued a “**Certificate of Authority**” by the Department of Insurance.
- **Enforces, administers, and executes** the insurance laws of Indiana. It also regulates insurance agents’ licensing requirements.
- **Regulates Individual Accident and Health Insurance policies** - both policy forms and rates. Group Accident and Health policies have only the policy forms regulated, not rates.

Policies Purchased Outside of Indiana

A policy is regulated by the state in which it is purchased. Regulations vary from state to state and with different types of insurance.

Ex: You have a policy from another state and move to Indiana. Your policy will still provide all stated benefits and is still regulated by the state in which the policy was purchased. Insurance companies may sell policies in many states and must comply with the regulations of each state.

Counselors should refer persons to the Department of Insurance in the state in which the policy was purchased. For further information, refer to the "*Guide to Health Insurance for People with Medicare*". (Counselors, please note that 800 # s may be usable only within a particular state.)

Individual vs. Group Policies

Individual Policies

As when insuring a home or automobile, you contract directly with an insurance company and receive a policy. You become the **policyholder**.

- The company needs approval from the Department of Insurance to change the policyholder's premiums. Any rate increase affects the entire class of policyholders. Insurance companies define what they mean by class (i.e., all Indiana policyholders, policyholders in the 46260 zip code, etc).
- The company cannot cancel your policy because of your health or claims as long as the premiums are paid on time.

Group Policies

Group insurance may offer lower premiums by having a large number of beneficiaries in one group, thereby spreading the insurance company's risks. The insurance policy is for the group and is called the "**master policy**". The employer or trade association is the "master policyholder".

The **master policyholder** can do any of the following:

- Reduce or change the benefits and coverage
- Increase your share of the premium
- Switch to another insurance company
- Drop the insurance coverage completely

The insurance **contract** (the policy) is between the Group and the insurance company, **not** the individual. The Group should have the master policy available for review by you or anyone within that Group.

When you buy insurance coverage under this Group, you are issued a "**certificate of insurance**", and you become a "**certificate holder**". This certifies that you are a member of the Group and are entitled to insurance benefits under that Group's policy.

Instead of a policy, certificate holders receive a summary of benefits or a benefits handbook. The master policy is the contract; the handbook is only a summary and is not binding on the insurance company.

PARTS TO A POLICY

A.O.S.P.R.

- **A**pplication
- **O**utline of Coverage - overview of the policy, plan description
- **S**chedule of Benefits - specifics of the policy (cost, daily benefit, maximum benefit, individual policy number, benefits purchased)
- **P**olicy
- **R**iders (if applicable)

Policy Form Number

All policy forms are assigned a **policy form number**. This number is found on the **bottom left corner on the cover of the policy**. The Outline of Coverage has a different number. You may need to give the policy form number when talking with your insurance company or Department of Insurance regarding questions about a specific policy.

Important Concepts of Health Insurance Policies

Underwriting-Are You Insurable?

- **Insurance companies are for-profit businesses.** Therefore, they will underwrite to determine their risks if they sell you a policy. The company is trying to predict the likelihood that you will become sick or injured and as a result file claims.
- **Each company has its own underwriting standards.** One company may reject your application while another might accept it.
- **Companies need to verify your answers to questions on insurance application forms.** When you sign an application, you give the insurance company permission to receive confidential information about your health from your doctors or other service providers.

Underwriting factors

AGE - With advancing age comes more frequent illnesses. For this reason, insurance companies usually charge higher premiums, and you may have a harder time buying insurance.

HEALTH - Your current health status and past history of illnesses may cause insurance companies to reject your application, charge an increased premium, or to exclude certain conditions from coverage. Be sure to consider any “guaranteed issues” that you may have.

OCCUPATION - persons with hazardous jobs may find it difficult to buy insurance. Office or school workers will have less trouble buying insurance than a test pilot or a race car driver.

HABITS AND LIFESTYLE - habits such as smoking or drinking can result in expensive health problems. Companies may either charge higher rates or deny you coverage.

A policy may be cancelled or claims not paid if it is found that incomplete or incorrect information was given on the application.

Guaranteed Issue Policies

- Some policies are sold without medical underwriting (without health questions on the application). These policies, known as “guaranteed issue” policies are **sold to anyone who applies and is qualified**. Hospital indemnity and specific disease policies are often guaranteed issue. (See Other Health Insurance.) Some companies sell **guaranteed issue Medicare Supplement** policies.

Preexisting Condition

- **Definition:** Any medical condition for which you receive treatment, advice, or medication prior to obtaining insurance coverage.
- When medical conditions are listed on the application, there is usually a waiting period during which time benefits are not paid. Some policies may not cover any preexisting conditions.

Usual, Customary, and Reasonable - UCR

Most insurance companies have their own fee schedule listing the usual, customary, and reasonable (UCR) charges and do not use the actual bills to calculate the amount they will pay. (Similar to Medicare's fee schedule and the Medicare approved amount.)

The UCR is the amount the company believes to be a fair price for the medical services and is often less than the doctor's actual bill.

If a policy promises to pay 80% of approved medical expenses, that means it will pay 80% of the usual, customary, and reasonable amount.

<u>UCR Ex:</u>	Medical bills	\$2,000
	Company's UCR	\$1,500
	Company pays 80% of UCR	\$1,200
	Person's co-payment	\$800
	(20% of the UCR + \$500 excess charges up to actual cost)	

Coordination of Benefits

- If you are covered under **2 different group health insurance plans**, the total benefits paid for the same service by both plans will be adjusted so that payment does not go above the UCR charge.
- One plan will be “primary”; the other “secondary”. The primary plan will provide its normal benefits. The secondary plan will pay their portion of the difference between what the primary plan pays and the UCR charge.
- The purpose of this coordination is to prevent duplication and/or excessive payment of benefits.

Renewing Policies

Policies may have different **types of renewal provisions**:

- **TERM** - the policy terminates at the end of a set period of time; it cannot be renewed.
- **CANCELABLE** - the policy can be cancelled by the company at any time.

- **OPTIONALLY RENEWABLE** - the policy can be cancelled at the company's option.
- **CONDITIONALLY RENEWABLE** - there are strings attached. Ex: The policy can be cancelled by the company when you reach age 65.
- **GUARANTEED RENEWABLE** - You may **renew** the policy every year or at the stated time interval. The policy is renewed as long as premiums are paid. Premiums can be raised, but only but only on a **class basis** (for everyone in a pre-set group). Ex: The insurance company can't single you out by raising your rates just because you are getting older or because you are having a lot of claims. **All Medigap and most LTC insurance policies are this type**
- **NON-CANCELABLE**- The policy **cannot be cancelled** for any reason except for nonpayment of premium or misrepresentation on the application, *and* under this provision, the company **may not raise premiums for any reason**.

Rate Regulation

Companies that sell individual insurance policies in Indiana must file their rates with the Department of Insurance.

- **How does an insurance company get a rate increase?**
The company files a proposal for new rates on specific individual policies, showing its anticipated income and expenses on those policies. The Department uses rate experts, called 'actuaries', who consider the company's statistics on income and expenses and its predictions of future claims and expenses.
- **What are Indiana's legal requirements on rates?**
Indiana law states "rates are to be reasonable, adequate, and not unfairly discriminatory." This means that when companies set rates they can only take into account factors such as age, sex, and area of residence if the company can prove that these factors contribute to higher risks.

- **What is a loss ratio?**

The loss ratio shows what portion of the total premiums the company collects is actually paid out on customers' **claims**. Loss ratios apply only to claims. Companies also have administrative expenses.

- **How often can an insurance company request a rate increase?**

As often as the company thinks it is necessary. Companies seldom submit more than one rate request per year. Companies must show they will continue to lose money over time at the current rate charged.

- **What can you do if you can't afford the premiums?**

Shop around. The present company may have a more affordable policy, (with fewer benefits and lower premiums), or another company may be able to match the present benefits, but at a lower price.

GUARANTY ASSOCIATION

Indiana law formed the Indiana Life and Health Insurance Guaranty Association to protect policy owners in the event of a life or health insurance company becoming insolvent (unable to pay debts as they become due - bankrupt).

Responsibilities of the Guaranty Association:

- To pay claims that are unpaid as a result of insolvency.
- To assure policy owners that their policy will continue as long as the premiums are paid, and as long as the maximum benefits as stated in the policy or of the Guaranty Association have not been reached.

All companies writing life and health insurance in Indiana belong to the Indiana Life and Health Guaranty Association. All states, the District of Columbia, and Puerto Rico have guaranty associations.

- When the state of Indiana determines that an insurance company is insolvent, the mechanism that springs into action to protect policyholders is called the “**State Guaranty Association” system**. All 50 states, the District of Columbia, and Puerto Rico have insurance company associations which help pay the claims of financially-impaired companies that operate in that state.

The **total liability** of the Indiana Guaranty Association may not exceed a total of **\$300,000** for all benefits on any one person, and **\$100,000** in cash value on any one person.

The Guaranty Association is intended to be a form of consumer protection, not an inducement in the solicitation of insurance.

HOW TO CHECK ON AN INSURANCE COMPANY BEFORE BUYING

Complaint Statistics

One way to compare insurance companies is the Complaint Index Ratio. This ratio shows consumer complaints filed with the Department of Insurance in 2000 and 2001 compared with premiums received by insurance companies. A Complaint Index Ratio is available for Health Carriers, Life, Auto, and Homeowners. For detailed information, call the Indiana Department of Insurance-Consumer Services.

1-800-622-4461, or on the internet at **www.in.gov/idoi**

Insurance Rating Reports

These reports are done by **Financial Rating Service** companies that print yearly reports on most insurance companies' **financial stability**. You may call the service directly, or look up its report in the local public library. Always check at least 2 rating services. Each rating service has its own rating system (which will be explained in the front of each report).

These reports also state the types of insurance sold by a company, whether the company once operated under a different name, and the company's invested assets. Companies usually invest their money in stocks, bonds, mortgages, and real estate. The total amount of assets is shown in *thousands of dollars*.

It's a good idea to see if the insurance company's rating has changed over the last couple of years.

Examples of the top rating for 3 of these sources are:

A.M. Best - A++ Moody's - Aaa Standard & Poor's - AAA

See your Telephone Reference for telephone numbers of these rating services.

HOW TO RETURN AN INSURANCE POLICY

Most health policies have a 10-day free look, except for **Medicare Supplement and Long Term Care Insurance**, which have a *30-day free look*. A '**free look**' means that you have the right to look over your policy and return it within the time limit for a full refund. (If your policy was mailed to you, keep the envelope as proof of the date that you received it.)

You may exercise your right to **return a policy** either by sending it to the insurance company by certified mail and asking for a return receipt, or to your agent who will give you a receipt.

**IF A POLICY SEEMS TOO GOOD TO BE TRUE
IT PROBABLY IS!**

Method of Paying Premium

You may be able to save some money by the way you pay your insurance premiums. The more divided the premium payments are, the more interest the insurance companies charge. Typically, the interest charges are:

Quarterly 5% Monthly 6% Annual 0% Semi-annual 2%

If you pay **monthly** by automatic transfer of funds (where the bank automatically withdraws money from your account and pays the insurance company), the interest charge usually ranges from 0% - 2%. This may mean a savings of 4% - 6% monthly. The agent may ask for a blank check to begin the automatic withdrawal of premium. (Make sure to write "void" on the check.)

Storing Insurance Policies

- Store all insurance policies together.
- Keep a list of the insurance companies, type of policy, and specific policy numbers. (A copy of this list should be given to a trusted friend or relative).
- **Original policies should not be kept in the bank's safe-deposit box**, only copies. In the event of a death you may not have access to the safety-deposit box.